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SUBJECT: KAZAKHSTAN - DISCUSSIONS WITH GOK ON CO-FINANCING HEALTH SECTOR REFORM

Summary

**¶1.** (U) Summary: The DCM and USAID held a productive meeting with Minister of Health Dernovoi on July 15 to discuss a new joint strategy in the health sector, the "Partnership for Health Development" (PHD). The proposal would combine USG assistance funds with matching funds from the GOK to support reform in the health sector. The PHD is modeled on the successful Partnership for Economic Development (PED), which involves co-funding from the GOK to support economic reform and development objectives. While the Ministry of Health strongly supports this idea, there are issues to be worked out, including specifying the GOK funding mechanism. End Summary.

Minister of Health Supports Partnership Model

**¶2.** (U) On July 15, the Deputy Chief of Mission and the Director for USAID's Health Program for Central Asia met with Minister of Health Dernovoi to discuss future cooperation in the health sector. The meeting was timely, as both the Ministry of Health and USAID are currently devising new strategic plans for Kazakhstan's health sector during the next five years. Minister Dernovoi has secured commitments of higher funding levels from the government budget, together with funding from the World Bank for the reforms envisaged. Minister Dernovoi and the Embassy are seeking resources for USAID's participation in this effort. Funding from the GOK to support the PHD would provide the technical assistance required by the new health strategy.

**¶3.** (U) Based on the successful model on the Program for Economic Development (PED) between the USG and GOK, USAID and the Ministry of Health (MOH) are now working on a Program for Health Development (PHD), which would involve co-financing of assistance programs between the USG and the GOK. Under the proposed compact, USAID would contribute an estimated \$2.5 million per year over the next five years for health sector reform (including for TB and HIV/AIDS prevention and treatment), and the GOK would match these funds.

**¶4.** (U) Minister Dernovoi noted that the co-financing model is very attractive and promising. However, this proposal requires high-level support from the Cabinet of Ministers and Ministry of Foreign Affairs (MFA). Dernovoi suggested that the USG draft a letter to Prime Minister Masimov outlining our ideas and plans for future collaboration in the health sector using the PED model. He also instructed his staff to have follow-on meetings with USAID officials to work out all the details.

Financing Issues To Be Worked Out

**¶5.** (U) A subsequent working level meeting was held with Ministry of Health officials to discuss the details of the proposed PHD. One issue is whether the GOK can use funds from a World Bank loan for the health sector to finance their share of the PHD, or whether they

need to use funds directly from their state budget. We are exploring whether periodic audits will be required if funds are transferred to USAID from MOH as part of the GOK's loan agreement with the World Bank. Another issue is who would sign such a joint compact on behalf of the USG and on behalf of the GOK. (Comment: We think it would be logical for the U.S. Ambassador to sign such a document as the interagency representative of all USG agencies at post which receive USG assistance funds in the health sector. End Comment.) On the Kazakhstani side, the Ministry of Health and the Ministry of Foreign Affairs would presumably sign the compact.

Comment

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¶6. (U) We see the proposed PHD, modeled on the successful PED, as a positive way to support implementation of health sector reform, which is a high priority in our Mission Strategic Plan. Furthermore, as a mid-level developing country, Kazakhstan can devote more of its own budgetary resources to match USG assistance dollars. USAID will continue meeting with the Ministry of Health to finalize the details of this proposed partnership. End Comment.

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